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Arizona may seek first-ever bank loans

SAN FRANCISCO (Reuters) - Arizona, which may run out of cash in 60 to 90 days, is in talks to open its first-ever line of credit from a bank, seeking up to \$5.7 billion so it can pay its bills, the state treasurer said.

Arizona's financial troubles are severe. Its state government faces a \$1.2 billion shortfall in its \$9.9 billion budget over the remainder of its fiscal year, likely to be addressed by deep spending cuts. Revenues tumbled after its once red-hot housing market crashed, sending ripples through its broader economy.

Arizona's unemployment rate climbed to 6.3 percent in November from 4.1 percent a year earlier. Non-farm payrolls shrank by 83,100 jobs, or by 3.1 percent, over the 12-month period.

As a result, Arizona's coffers have been thinning at "unprecedented" speed, forcing it to begin talks with Bank of America Corp (BAC.N) State Treasurer Dean Martin told Reuters in a telephone interview late on Monday.

"We just don't have any cash," Martin said. "We're not in a sustainable financial situation."

Local governments use lines of credit from banks to meet short-term funding shortfalls. Usually a line of credit can carry higher interest rates than an issuance in the municipal bond market, although the fees are generally lower.

Arizona law makes issuing short-term revenue anticipation problematic because of repayment requirements. The state could prepare to sell Treasurer Warrant Notes, but they could only be used when the state goes broke.

"We have to be tapped out," Martin said, noting that in the current troubled municipal debt market may look askance at such debt.

"We could implement it. Whether there would be an interest to cover our activity, we don't know," he said.

Meanwhile, resorting to long-term debt is not an option for Arizona as its constitution caps the state's general obligation debt at a measly \$350,000.

That makes rolling loans from a line-of-credit the best option for the state to get through its current fiscal year, Martin said. But he conceded the plan would put the state on a debt treadmill - with interest costs yet to be determined.

"It's like we'll have to take our Visa to pay off our MasterCard and then take the MasterCard to pay off the Visa," the first-term Republican treasurer said. He acknowledged the line-of-credit plan would put Arizona in an unfamiliar financial position.

"The state has not had this problem since the Great Depression. We got close in the early 1980s but we never had to implement it," Martin said.

Also, the plan, which could be approved by a state commission meeting this week, would only tide Arizona over through its current fiscal year.

Expectations are the state's economy in the next year beginning in July will still be in bad shape. If so, Arizona would once again face a budget shortfall and its cash balance would once again be an urgent problem.

"Basically we'll start next year at zero and go negative," said Martin.

"It's not just we're short for a day or a week or a couple of weeks," he said. "Once we start July 2009 we're negative and stay there."

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